

**PUBLIC DISCLOSURE**

**April 12, 2011**

**MORTGAGE LENDER COMMUNITY INVESTMENT  
PERFORMANCE EVALUATION**

**FRANKLIN FIRST FINANCIAL, LTD.  
D/B/A SENIOR FUNDING GROUP  
MC1630**

**538 BROADHOLLOW ROAD, SUITE 401  
MELVILLE, NY 11747**

**DIVISION OF BANKS  
1000 WASHINGTON STREET  
BOSTON, MA 02118**

<b>NOTE:</b>	This evaluation is not, nor should it be construed as, an assessment of the financial condition of this mortgage lender. The rating assigned to this mortgage lender does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this mortgage lender.
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## GENERAL INFORMATION

Massachusetts General Laws chapter 255E, section 8 and the Division of Banks' ("Division") regulation 209 CMR 54.00, Mortgage Lender Community Investment ("MLCI"), require the Division to use its authority when examining mortgage lenders subject to its supervision who have made 50 or more home mortgage loans in the last calendar year, to assess the mortgage lender's record of helping to meet the mortgage credit needs of the Commonwealth, including low- and moderate-income neighborhoods and individuals, consistent with the safe and sound operation of the mortgage lender. Upon conclusion of such examination, the Division must prepare a written evaluation of the mortgage lender's record of meeting the credit needs of the Commonwealth.

This document is an evaluation of the MLCI performance of **Franklin First Financial Ltd. d/b/a Senior Funding Group ("Franklin First")** prepared by the Division, the mortgage lender's supervisory agency, as of **April 12, 2011**.

## SCOPE OF EXAMINATION

An evaluation was conducted using examination procedures, as defined by MLCI. A review of the Division's records, as well as the mortgage lender's public MLCI file, did not reveal any complaints related to MLCI.

The MLCI examination included a comprehensive review and analysis, as applicable, of Franklin First's:

- (a) origination of loans and other efforts to assist low and moderate income residents, without distinction, to be able to acquire or to remain in affordable housing at rates and terms that are reasonable considering the lender's history with similarly situated borrowers, the availability of mortgage loan products suitable for such borrowers, and consistency with safe and sound business practices;
- (b) origination of loans that show an undue concentration and a systematic pattern of lending resulting in the loss of affordable housing units;
- (c) efforts working with delinquent residential mortgage customers to facilitate a resolution of the delinquency; and
- (d) other efforts, including public notice of the scheduling of examinations and the right of interested parties to submit written comments relative to any such examination to the Commissioner, as, in the judgment of the Commissioner, reasonably bear upon the extent to which a mortgage lender is complying with the requirements of fair lending laws and helping to meet the mortgage loan credit needs of communities in the Commonwealth.

MLCI examination procedures were used to evaluate Franklin First's community investment performance. These procedures utilize two performance tests: the Lending Test and the Service Test. This evaluation considered Franklin First's lending and community development activities for the period of January 2009 through December 2010. The data and applicable timeframes for the Lending Test and the Service Test are discussed below.

The Lending Test evaluates the mortgage lender's community investment performance pursuant to the following five criteria: geographic distribution of loans, lending to borrowers of different incomes, innovative and flexible lending practices, fair lending, and loss of affordable housing.

Home mortgage lending for 2009 and 2010 is presented in the geographic distribution, lending to borrowers of different incomes and the Minority Application Flow tables. Comparative analysis of the mortgage lender's lending performance for the year of 2009 is provided because it is the most recent year for which aggregate lending data reportable under the Home Mortgage Disclosure Act ("HMDA") is available. The aggregate lending data is used for comparison purposes within the evaluation and is a measure of loan demand. It includes lending information from all HMDA reporting lenders which originated loans in the Commonwealth of Massachusetts.

In addition to gathering and evaluating statistical information relative to a mortgage lender's loan volume, the MLCI examination also reflects an in depth review of the entity's mortgage lending using qualitative analysis, which includes, but is not limited to: an assessment of the suitability and sustainability of the mortgage lender's loan products by reviewing the lender's internally maintained records of delinquencies and defaults as well as information publicly available through the Federal Reserve Banks and through local Registries of Deeds and through other sources available to the examination team. The examination included inspection of individual loan files for review of compliance with consumer protection provisions and scrutiny of these files for the occurrence of disparate treatment based on a prohibited basis.

The Service Test evaluates the mortgage lender's record of helping to meet the mortgage credit needs by analyzing the availability and effectiveness of a mortgage lender's systems for delivering mortgage loan products, the extent and innovativeness of its community development services, and, if applicable, loss mitigation services to modify loans and/or efforts to keep delinquent home borrowers in their homes.

## **MORTGAGE LENDER'S MLCI RATING:**

**This mortgage lender is rated "Satisfactory."**

- The geographic distribution of the Lender's loans reflects an adequate dispersion in low- and moderate-income census tracts as it is reflective of the distribution of owner occupied housing in those census tracts.
- The distribution of originations by borrower income level reflects, given the demographics of Massachusetts, an adequate record of serving the credit need among individuals of different income levels, including low- and moderate-income.
- Franklin First offers a limited number of flexible lending products, which are provided in a safe and sound manner to address the credit needs of low- and moderate-income individuals.
- Fair lending policies and practices are considered reasonable.
- The mortgage lender's Community Development Services were considered to need improvement at this time.

## **PERFORMANCE CONTEXT**

### **Description of Mortgage Lender**

Franklin First originates, funds, and brokers residential mortgages through its wholesale and retail operations nationwide. The company was established in 1993 and became licensed by the Division on November 15, 2004 to operate as a mortgage broker and lender in the Commonwealth. Franklin First does not have a branch presence in Massachusetts. All mortgage processing and originations are conducted from the main office located at 538 Broadhollow Road, Suite 401 in Melville, New York.

Closed loans are funded under the licensee's warehouse line of credit and sold to secondary market investors. Franklin First operates, primarily, as a mortgage lender but also maintains a mortgage broker license. Franklin First generates business through third party broker relationships, referrals, and repeat customers. The majority of loans originated are FHA mortgage products. Franklin First is an approved FHA Title II Lender. In 2009, Franklin First originated 50 FHA loans representing \$14,479,650 in volume and, in 2010, Franklin First originated 30 loans representing \$8,397,376 volume.

### **Demographic Information**

The MLCI regulation requires mortgage lenders to be evaluated on their performance within the Commonwealth of Massachusetts. Demographic data is provided below to offer contextual overviews of economic climate along with housing and population characteristics for the Commonwealth of Massachusetts.

<b>DEMOGRAPHIC INFORMATION*</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	N/A
Geographies (Census Tracts)	1,361	8.4	21.7	46.1	23.4	0.4
Population by Geography	6,349,097	5.8	20.5	47.6	26.0	0.1
Owner-Occupied Housing by Geography	1,508,248	1.6	12.8	54.0	31.6	0.0
Family Distribution by Income Level	1,587,537	20.5	17.7	22.3	39.5	0.0
Distribution of Low and Moderate Income Families throughout AA Geographies	606,419	10.0	29.4	46.2	14.4	0.0
Median Family Income		\$65,318	Median Housing Value		\$209,519	
2009 HUD Adjusted Median Family Income		\$82,684	Unemployment Rate		8.3%**	
Households Below Poverty Level		9.8%				

\*Source: PCI Corporation Inc., CRA Wiz, Data Source: 2000 US Census

\*\*as of 12/10

Based on 2000 Census data, the Commonwealth of Massachusetts has a total population of just over 6.3 million people and a total of 2.6 million housing units. Of the total housing units, 1.5 million or 57.5 percent are owner-occupied, 935,332 or 35.7 percent are rental-occupied, and 6.8 percent are vacant units.

Low-income is defined as individual income that is less than 50 percent of the area median income. Moderate-income is defined as individual income that is at least 50 percent and less than 80 percent of the area median income. Middle-income is defined as individual income that is at least 80 percent and less than 120 percent of the area median income. Upper-income is defined as individual income that is more than 120 percent of the area median income.

There are 2.4 million households in the Commonwealth with a median household income of \$53,686 according to the 2000 Census. Over 40 percent of the households are classified as low- and moderate-income. In addition, 9.8 percent of the total numbers of households are living below the poverty level. Individuals in these categories may find it challenging to qualify for traditional mortgage loan products.

Households classified as “families” total slightly over 1.5 million. Of all family households, 20.5 percent are low income, 17.7 percent are moderate income, 22.3 percent are middle income, and 39.5 percent are upper income. The median family income according to the 2000 census was \$65,318. The Housing and Urban Development (“HUD”) adjusted median family income is \$82,684. The adjusted median family income is updated yearly and takes into account inflation and other economic factors.

The Commonwealth of Massachusetts contains 1,361 Census tracts. Of these, 114 or 8.4 percent are low-income; 295 or 21.7 percent are moderate-income; 628 or 46.1 percent are middle-income; 319 or 23.4 percent are upper-income; and 5 or 0.4 percent are NA or have no income designation. The five census tracts with no income designation are located in Bridgewater (a correctional facility), Boston (islands in Boston Harbor), Amherst (U MASS campus), Harvard (Fort Devens), and Grafton (Tufts Veterinary School). These Census tracts contain no housing units and will not be included in this evaluation since they provide no lending opportunities.

The median housing value for Massachusetts was \$209,519 according to the 2000 Census. However, recent figures from the Warren Group, publishers of the Banker and Tradesman, show the median price for a single-family homes increased 3.2 percent to \$289,000 in October 2010, up from \$280,000 a year earlier in 2009. Fluctuating housing values have a direct effect on the types of financial products adequate for homeowner and property buyers.

The unemployment rate for the state of Massachusetts dropped from 8.4 percent in September 2010 to 8.3 percent in December 2010, the lowest unemployment rate since April 2009. Employment rates would tend to affect a borrower’s ability to remain current on mortgage loan obligations and also correlates to delinquency and default rates.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

### **LENDING TEST**

Franklin First's Lending Test performance was rated and overall "Satisfactory." Franklin First's lending efforts are rated under the five performance criteria: Borrower Characteristics, Geographic Distribution, Innovative or Flexible Lending Practices, Fair Lending Policies and Procedures, and Loss of Affordable Housing. The following information details the data compiled and reviewed, as well as conclusions on the mortgage lending of Franklin First.

#### ***I. Borrower Characteristics***

The distribution of loans by borrower income levels was reviewed to determine the extent to which the Lender is addressing the credit needs of the Commonwealth's residents.

Franklin First achieved a good record of serving the mortgage credit needs among borrowers of different income levels based on the area's demographics and a comparison to aggregate lending data in Massachusetts.

The following table shows HMDA-reportable loans to low-, moderate-, middle- and upper-income borrowers in comparison to the aggregate and the percentage of total families within the Commonwealth in each respective income group.

<b><i>Distribution of HMDA Loans by Borrower Income</i></b>								
<b><i>Borrower Income Level</i></b>	<b><i>% Families</i></b>	<b><i>Franklin First 2009</i></b>		<b><i>Aggregate Lending Data (% of #) 2009</i></b>	<b><i>Franklin First 2010</i></b>		<b><i>Franklin First Total</i></b>	
<b><i>Low</i></b>	20.5	4	5.2	5.1	6	16.7	10	8.8
<b><i>Moderate</i></b>	17.7	16	20.7	16.6	13	36.1	29	25.6
<b><i>Middle</i></b>	22.3	28	36.4	23.7	8	22.2	36	31.9
<b><i>Upper</i></b>	39.5	28	36.4	39.7	8	22.2	36	31.9
<b><i>NA*</i></b>	0.0	1	1.3	14.9	1	2.8	2	1.8
<b><i>Total</i></b>	100.0	<b>77</b>	<b>100.0</b>	<b>100.0</b>	<b>36</b>	<b>100.0</b>	<b>113</b>	<b>100.0</b>

*Source: 2009&2010 HMDA Data and 2000 U.S. Census \*Income Not Available*

As shown in the above table, Franklin First's 2009 lending to both low- and moderate-income borrowers was above the aggregate. The performance of lending to low- and moderate-income borrowers is somewhat tempered by the relatively low level of overall lending as a minor change to the distribution would have a disproportional effect on the percentages. However, Franklin First has demonstrated its willingness and ability to provide loans to borrowers of all income levels, even when overall originations decline dramatically, as shown in the 2010 data.

#### ***II. Geographic Distribution***

The geographic distribution of loans was reviewed to assess how well Franklin First is addressing the credit needs throughout the Commonwealth of Massachusetts' low-, moderate-, middle-, and upper-income Census tracts.

The mortgage lender's geographic distribution of loans reflects an adequate distribution of loans in the Commonwealth.

The following table presents Franklin First's HMDA-reportable loans as well as the 2009 aggregate data (exclusive of Franklin First). In addition, the table also reflects the percentage of owner-occupied housing units in each of the Census tract income categories.

<b><i>Distribution of HMDA Loans by Income Category of the Census Tract</i></b>								
<b><i>Census Tract Income Level</i></b>	<b><i>% Total Owner-Occupied Housing Units</i></b>	<b><i>Franklin First 2009</i></b>		<b><i>Aggregate Lending Data (% of #) 2009</i></b>	<b><i>Franklin First 2010</i></b>		<b><i>Franklin First Total</i></b>	
<b><i>Low</i></b>	1.6	1	1.3	1.6	0	0.0	1	0.9
<b><i>Moderate</i></b>	12.8	15	19.5	10.6	9	25.0	24	21.2
<b><i>Middle</i></b>	54.0	44	57.1	50.7	22	61.1	66	58.4
<b><i>Upper</i></b>	31.6	17	22.1	37.1	5	13.9	22	19.5
<b><i>Total</i></b>	<b>100.0</b>	<b>77</b>	<b>100.0</b>	<b>100.0</b>	<b>36</b>	<b>100.0</b>	<b>113</b>	<b>100.0</b>

*Source: 2009 and 2010 HMDA Data and 2000 U.S. Census*

As reflected in the table above, for 2009, loans in moderate-income tracts was above the aggregate's lending and percentage of owner occupied housing units in moderate income tracts. There was one loan originated in a low-income tract which resulted in performance comparable with the aggregate. Again, this performance is mitigated by the overall low volume of lending of Franklin First in the years reviewed. As noted earlier, originations declined significantly in 2010, with no originations in low-income Census tracts. However, aggregate information for 2010 is not available so comparative analysis cannot be made.

Given the above described mitigating factors, Franklin First's performance in this category is considered reasonable at this time.

### ***III. Innovative or Flexible Lending Practices***

Franklin First offers a limited number of innovative and flexible products, provided in a safe and sound manner to address the credit needs of low- and moderate-income individuals or geographies.

Franklin First focuses its business efforts on government insured FHA loans. In 2009 and 2010, Franklin First originated 83 loans totaling 22,877,026.

The lender is an approved HUD Title II FHA Lender with the authority to conduct business as a mortgage lender and mortgage broker in many states. All loan products are originated under investor guidelines and requirements, as well as adherence to state legal requirements. The FHA loan products offered provide competitive interest rates and require smaller down payments for low- and moderate-income first time homebuyers and existing homeowners.

The other products offered include VA fixed loans, Conventional, High Loan Balance Adjustable Rate Mortgages, and Jumbo Fixed loans.



#### **IV. Fair Lending**

The Division examines a mortgage lender's fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-103 and Regulatory Bulletin 5.3-101. The mortgage lender's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. The review included, but was not limited to, review of written policies and procedures, interviews with mortgage lender personnel, and individual file review. No evidence of disparate treatment was identified.

Franklin First's compliance with the laws relating to discrimination and other illegal credit practices was reviewed. The fair lending review was conducted in accordance with the Federal Financial Institutions Examination Council (FFIEC) Interagency Fair Lending Examination Procedures. No evidence of discriminatory or other illegal credit practices was identified.

Franklin First maintains a fair lending policy statement. Franklin First ensures fair lending is implemented by distributing the policy to all employees upon being hired. Fair lending training and materials are provided to all employees. Sales and operation associates are provided with training on how to apply fair lending practices in their daily jobs, and fair lending audits are performed and corrective actions are taken.

All new employees participate in a training course before officially beginning work at Franklin First. The training course consists of an overview of federal and state regulations, ethics, code of conduct and all aspects of the mortgage origination process. Follow-up classes are held when changes in the mortgage industry become effective. Franklin First's internal intranet site is a resource for employee training. The site contains policies, procedures and regulations. Loan officers are required to take continuing education courses and those are made available on Franklin First's intranet site.

All prospective loans are subject to internal quality control auditing prior to final loan approval. Quality control reviews include loan verification screening for employment and income. Also audits consist of compliance testing to ensure that applicable state and federal regulations were adhered to during the origination process.

Fair Lending reviews consist of HMDA data integrity reviews where ten percent of closed and denied loans are reviewed. In addition, a pricing and interest rate review is done to ensure that no discriminatory trends are present. Further reviews are conducted on all declined loan files to determine that proper disclosure was given to the consumer and that the reason for the decline is valid and accurately noted in the Franklin First's loan origination system.

On a monthly basis, a third party quality control audit is performed on a percentage of Franklin First's loan portfolio. The third party audit produces results to Franklin First's quality control department and the department responds to the results.

Franklin First does not generate advertisements for Massachusetts consumers. Therefore, the fair lending review did not include a review of advertisements.

#### **MINORITY APPLICATION FLOW**

For 2009 and 2010, Franklin First received 216 HMDA-reportable loan applications from within the Commonwealth of Massachusetts. Of these applications, 22 (10.2 percent) were received from minority applicants; 12 (54.5 percent) resulted in originations. Franklin First received 20 (9.3 percent) of HMDA-reportable applications from ethnic groups of Hispanic origin within its assessment area; 10 (50.0 percent) were originated.

Demographic information for Massachusetts reveals that the total ethnic and racial minority population stood at 18.12 percent of the total population in 2010. This segment of the population is comprised of 6.75 percent Hispanic or Latino and 11.38 racial minority: 5.01 percent Black; 3.73 percent Asian; .18 percent American Indian; .03 percent Native Hawaiian/Other Pacific Islander; and 2.42 percent identified as Other Race.

Refer to the following table for information on the mortgage lender's minority application flow as well as a comparison to aggregate lenders throughout the Commonwealth of Massachusetts. The comparison of this data assists in deriving reasonable expectations for the rate of applications the mortgage lender received from minority applicants

<b>MINORITY APPLICATION FLOW</b>								
<b>RACE</b>	Franklin First 2009		2009 Aggregate Data		Franklin First 2010		Franklin First Total	
	#	%	#	%	#	%	#	%
<i>American Indian/ Alaska Native</i>	0	0.0	733	0.1	0	0.0	0	0.0
<i>Asian</i>	5	3.6	20,081	4.1	2	2.6	7	3.2
<i>Black/ African American</i>	8	5.8	10,037	2.0	5	6.5	13	6.0
<i>Hawaiian/Pac Isl.</i>	0	0.0	556	0.1	1	1.3	1	0.5
<i>2 or more Minority</i>	0	0.0	230	0.1	0	0.0	0	0.0
<i>Joint Race (White/Minority)</i>	1	0.7	5,017	1.0	0	0.0	1	0.5
<b>Total Minority</b>	<b>14</b>	<b>10.1</b>	<b>36,654</b>	<b>7.4</b>	<b>8</b>	<b>10.4</b>	<b>22</b>	<b>10.1</b>
<i>White</i>	108	77.7	343,772	69.8	55	71.4	163	75.5
<i>Race Not Available</i>	17	12.2	112,483	22.8	14	18.2	31	14.4
<b>Total</b>	<b>139</b>	<b>100.0</b>	<b>492,909</b>	<b>100.0</b>	<b>77</b>	<b>100.0</b>	<b>216</b>	<b>100.0</b>
<b>ETHNICITY</b>								
<i>Hispanic or Latino</i>	10	7.2	11,447	2.3	7	9.1	17	7.9
<i>Not Hispanic or Latino</i>	114	82.0	364,136	73.9	59	76.6	173	80.1
<i>Joint (Hisp/Lat /Not Hisp/Lat)</i>	3	2.2	3,681	0.7	0	0.0	3	1.4
<i>Ethnicity Not Available</i>	12	8.6	113,645	23.1	11	14.3	23	10.6
<b>Total</b>	<b>139</b>	<b>100.0</b>	<b>492,909</b>	<b>100.0</b>	<b>77</b>	<b>100.0</b>	<b>216</b>	<b>100.0</b>

Source: PCI Corporation CRA Wiz, Data Source: 2000 U.S. Census Data

Franklin First's performance was above the aggregate's performance and the demographic distribution for racial minority applicants and ethnic minority applicants for 2009. Applications for 2010 showed a declining trend to the volume of applications generated. Franklin First's minority application flow is reasonable when compared to the aggregate's lending performance levels and the demographics of Massachusetts.

## **V. Loss of Affordable Housing**

This review concentrated on the suitability and sustainability of mortgage loans originated by Franklin First by taking into account delinquency and default rates of the mortgage lender and those of the overall marketplace. Information provided by the lender was reviewed as were statistics available on delinquency and default rates for mortgage loans. Additionally, individual mortgage loans were tracked for their status through local Registries of Deeds and other available sources including public records of foreclosure filings.

An extensive review of information and documentation, from both internal and external sources as partially described above, did not reveal lending practices or products that showed an undue concentration or a systematic pattern of lending, including a pattern of early payment defaults, resulting in the loss of affordable housing units. Further, delinquency rates were found to be consistent with industry averages.

## **SERVICE TEST**

The service test evaluates a mortgage lender's record of helping to meet the mortgage credit needs in the Commonwealth by analyzing both the availability and effectiveness of a mortgage lender's systems for delivering mortgage loan products; the extent and innovativeness of its community development services; and loss mitigation services to modify loans or otherwise keep delinquent home loan borrowers in their homes. Community development services must benefit the Commonwealth or a broader regional area that includes the Commonwealth.

Franklin First's Service Test performance was determined to be "Needs to Improve" at this time.

### **Mortgage Lending Services**

Franklin First provides mortgage lending services that are accessible to geographies and individuals of different income levels in the Commonwealth by focusing its business efforts on government insured FHA loans. Franklin First's customers can apply over the telephone, or on the lender's website. All processing and related support operations are performed from Franklin First's main office in Melville, New York. In addition, Franklin First's HUD-Sponsored Endorsed Underwriters are staffed to underwrite the loans at the main office.

Franklin First does not have a branch presence in Massachusetts. Business development relies primarily on third party networks from mortgage broker relationships, lead generations, repeat customers and referrals.

As Franklin First does not routinely service mortgage loans, it would not work directly with delinquent borrowers. Therefore, this review would not include an evaluation of loan mitigation and modification efforts as the mortgage lender would not be accountable for such action. However, as described above, lending practices and products did not show an undue concentration or a systematic pattern of lending resulting in mortgage loans that were not sustainable.

### **Community Development Services**

A community development service is a service that:

- (a) has as its primary purpose community development; and
- (b) is related to the provision of financial services, including technical services

The Commissioner evaluates community development services pursuant to the following criteria:

- (a) the extent to which the mortgage lender provides community development services; and
- (b) the innovativeness and responsiveness of community development services.

There were no community development services identified during the examination period.

## **PERFORMANCE EVALUATION DISCLOSURE GUIDE**

Massachusetts General Laws Chapter 255E, Section 8, and 209 CMR 54.00, the Mortgage Lender Community Investment (MLCI) regulation, requires all mortgage lenders to take the following actions within 30 business days of receipt of the MLCI evaluation of their mortgage lender:

- 1) Make its most current MLCI performance evaluation available to the public.
- 2) Provide a copy of its current evaluation to the public, upon request. In connection with this, the mortgage lender is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the mortgage lender's evaluation, as prepared by the Division of Banks, may not be altered or abridged in any manner. The mortgage lender is encouraged to include its response to the evaluation in its MLCI public file.

The Division of Banks will publish the mortgage lender's Public Disclosure on its website no sooner than 30 days after the issuance of the Public Disclosure.